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Agenda items 8 (a) and 8 (b)

DRAFT REPORT OF SESSIONAL COMMITTEE II

Rapporteur: Mr. Alexii RYBAK (Ukraine)

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INTRODUCTION

(i) At its 789th plenary meeting, on 23 September 1991, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee II) to consider and report on the following agenda items:

Economic cooperation among developing countries: Financing of South-South trade (paragraph 4 (c) (iii) of resolution 4 (V) of the Committee on Economic Cooperation among Developing Countries) (agenda item 8 (a));

Report of the Secretary-General of UNCTAD in accordance with Conference resolution 137 (VI) concerning land-locked developing countries (agenda item 8 (b)).

(ii) At its 1st meeting, on 23 September 1991, Sessional Committee II elected Mr. Leslie B. Gatan (Philippines) as its Chairman. At its resumed first meeting, on 24 September 1991, the Committee elected Mr. Alexii Rybak (Ukraine) as its Vice-Chairman-cum-Rapporteur.

(iii) During the first part of the thirty-eighth session of the Board, Sessional Committee II held ... plenary meetings, and ... informal meetings.

Chapter I

ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES: FINANCING OF SOUTH-SOUTH TRADE (PARAGRAPH 4 (c) (iii) OF RESOLUTION 4 (V) OF THE COMMITTEE ON ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES) (Agenda item 8 (a))

1. For its consideration of this item, Sessional Committee II had the following documentation before it:

Evaluation of performances and issues of trade financing in developing countries: The case for and the viability of an interregional facility - report by the UNCTAD secretariat (TD/B/1300 and Corr.1),

together with its supplements, namely:

Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements - study by the UNCTAD secretariat (TD/B/1300/Supp.1, English only); and the

Feasibility study for an interregional trade financing facility for the exports of non-traditional goods of developing countries (study prepared by Multinational Strategies, Inc., New York, in collaboration with the UNCTAD secretariat) (TD/B/1300/Supp.2, English only).

2. The Report of the Expert Group on Trade Financing Mechanisms in and among Developing Countries (TD/B(XXXVIII)/Misc.3) was also available to delegations, in English only.

3. Introducing item 8 (a), the Officer-in-Charge, Monetary and Financial Cooperation and Trade Analysis Branch referred to resolution 4 (V) of 12 June 1989 of the Committee on Economic Cooperation among Developing Countries. In pursuance of this resolution, the secretariat had drawn up a questionnaire for surveying the trade finance infrastructure of developing countries, engaged outside market-based consultants and consulted with appropriate international, regional and national concerns on assessing the feasibility of establishing an Interregional Trade Financing Facility (ITFF). Finally, an Ad Hoc Expert Group on Trade Financing Mechanisms had been convened by the Secretary-General of UNCTAD in July 1990 to examine the findings of the secretariat, and the report of the Group was before the Committee in document TD/B(XXXVIII)/Misc.3.

4. In summarizing those findings, he stated that, although 55 developing countries had some form of trade financing, only 16 had fully-fledged facilities and only 8 had export credit guarantee schemes. The coverage of

trade was thin, and the credit extended was on stringent terms and was usually extended to direct exporters only. Pre-shipment credit in general and its foreign exchange components in particular were rare. Banks preferred lending for working capital and not trade finance as such. National commercial banks and central banks saw export credit and trade finance in general as a secondary activity. International banks were active only in some commodity financing extended over the short term, and were rarely involved in transactions involving developing countries on both the export and import sides. The most striking shortage of finance was in the sector of non-traditional exports. As regarding the treatment by international financial markets of developing country exporters, he noted that the methods of evaluating credit risk led to superimposing country risk upon credit risk. Regional and sub-regional institutions for their part had proved to be rather inactive in trade finance, and to have other priorities. Their involvement in trade financing was further limited by restrictions written in their Charters.

5. These findings led the secretariat to examine the idea of an Interregional Trade Financing Facility. The secretariat was interested, in addition to the questions of financial and commercial viability, in whether such a facility would imply financial additionality for all developing countries. In testing the feasibility of the ITFF, the consultants had constructed eight scenarios, representing, taken together, a realistic set of outcomes. All the scenarios indicated that the ITFF was commercially and financially viable.

6. In mentioning the differences of emphasis that had emerged between the experts and the secretariat in the discussions in the Ad Hoc Group, he said that the experts were not in favour of a sharp distinction between traditional and non-traditional exports, of a product-based definition or even of a country-based definition of exports; they did not believe it would be wise for the proposed Facility to move, at inception, to longer-term maturities; and considered that the destination of exports should not be confined to developing countries. These recommendations had been reflected by the secretariat in the documentation before the Sessional Committee.

7. The spokesman for the Group of 77 (Sudan) emphasized four important conclusions of the documents. He referred to the significant functional and institutional gaps in the trade financing infrastructure of developing

countries, and drew attention to the action list of recommendations formulated by the secretariat in TD/B/1300, section V.1, regarding the problems, among others, of lack of resources, administrative and delivery difficulties and unfavourable terms and conditions. He endorsed the view that those problems could not be tackled successfully by the developing countries, given their foreign exchange and debt constraints, without the cooperation of the developed countries. Finally, he agreed that, without the solution of the developing countries' trade financing problems, their efforts to liberalize their trade and increase their global trade participation would be seriously undermined.

8. On welcoming the secretariat documentation on the feasibility of establishing an ITFF, he emphasized the need for the ITFF to offer financial additionality for all developing countries and noted that its viability required public and private, national and international participation, particularly that of the developed countries at the early stages of operation.

9. Referring to the Expert Group Meeting, he noted that the 20 eminent specialists who had attended it, including 11 chief executives of export-import banks and credit insurance agencies from developed and developing countries, had concurred on the merits, need for and viability of such a facility.

10. The representative of China noted the various problems developing countries were facing and the intensive efforts they had made in the last 10 years to develop their mutual economic cooperation. Given the importance of export expansion, in which the provision of export credit had a major part to play for the economic development of the developing countries, China was pleased to see the establishment of national trade financing facilities in a number of developing countries but regretted that they could not meet the needs of the developing countries. It was vitally necessary to strengthen and perfect such facilities. Moreover, more than half the developing countries still had no trade financing facilities at all. The proposal to establish an interregional trade financing facility was therefore worth consideration. She noted, however, that its establishment faced many difficulties, the most important being resource constraints. Her delegation hoped that the international community would provide the necessary financial and technical support for the proposed ITFF. China was ready to participate actively in the relevant discussions.